

CA1  
YL 16  
1987  
B168

## Backgrounder

BP-168E

### CANADA PENSION PLAN SURVIVOR BENEFITS



MILDRED J. MORTON  
Law and Government Division

7 October 1987



Library of  
Parliament  
Bibliothèque  
du Parlement

## Research Branch

The Research Branch of the Library of Parliament works exclusively for Parliament, conducting research and providing information for Committees and Members of the Senate and the House of Commons. This service is extended without partisan bias in such forms as Reports, Background Papers and Issue Reviews. Research Officers in the Branch are also available for personal consultations in their own fields of expertise.

© Minister of Supply and Services Canada 1988

Cat. No. YM32-2/168E

ISBN 0-660-12799-7

CE DOCUMENT EST AUSSI  
PUBLIÉ EN FRANÇAIS





CANADA

LIBRARY OF PARLIAMENT  
BIBLIOTHÈQUE DU PARLEMENT

**CPP SURVIVOR BENEFITS**

**INTRODUCTION**

On 24 September 1987 the Minister of National Health and Welfare tabled the Consultation Paper entitled "Survivor Benefits under the Canada Pension Plan" in the House of Commons. The paper follows upon a series of amendments to the Canada Pension Plan (CPP) which came into effect in January 1987 and which constituted the response -- with respect to the CPP -- to the process of pension reform begun in the late '70s. When the CPP amendments were introduced in December 1986, the Minister of Finance stated that two issues required further consideration: survivor benefits and retirement income for homemakers (including the question of whether to introduce a homemaker pension in the CPP). The Consultation Paper, which now stands referred to the Standing Committee on National Health and Welfare, presents proposals regarding the first issue; the second is yet to be addressed.

**THE EXISTING PROVISIONS FOR SURVIVOR BENEFITS**

Survivor benefits are pensions which are paid to surviving spouses (since 1975, both men and women) and dependent children after the death of the CPP contributor. Surviving spouses include common law spouses. Since 1987, a "common law spouse" is a person of the opposite sex who had lived with the contributor "in a conjugal relationship" for at least one year before the contributor's death. Where there is both a common law spouse, as defined, and a legal spouse, only the common law



spouse is entitled to the survivor benefit. Survivors eligible for CPP retirement or disability benefits because they are themselves CPP contributors, may also receive a survivor benefit, although the combined benefit cannot exceed the amount of the maximum retirement benefit (this restriction is often called the "cap" on the CPP benefit).

In order for a survivor to be eligible for a benefit, the deceased spouse must have contributed to the CPP for a certain period. To simplify somewhat, contributions must have been made in at least three years and for one third of the years in the contributory period, or for 10 years, whichever is less. Also, where a contributor dies within one year of remarriage, a benefit will not be paid to the surviving spouse if the contributor could not have been expected to live longer than a year after the marriage.

The amount of the survivor benefit depends on the age of the survivor and on whether he or she has dependent children (that is, children under 18 or under 25 and at school full-time). Survivors aged 65 and over are entitled to a benefit equal to 60% of the contributor's retirement pension. It should be remembered that at age 65 survivors also receive the Old Age Security pension (OAS).

Survivors between age 45 and 64 receive an amount calculated as the sum of two components. The first is a flat rate benefit, analogous in function, though not in amount, to the OAS. This portion of the pension is indexed annually to prices, as is the OAS. The second component is a amount equal to 37.5% of the deceased spouse's pension.

Survivors between age 35 and 44 receive a reduced benefit, unless they have dependent children or they are disabled at the time of the contributor's death. The benefit is reduced by 1/120 for each month (i.e. by 1/10 for each year) the survivor is under age 45.

Survivors under age 35 are not entitled to any benefit unless they have dependent children or are disabled. For those over age 65 the survivor benefit continues until death. For those under age 65 the benefit continues until the survivor reaches 65, at which time he or she becomes entitled to a 60% benefit and OAS.



In addition to the survivor benefit, all dependent children of deceased contributors are entitled to a flat-rate benefit, regardless of the age of the surviving spouse. In 1987 the benefit is \$94.79.

Table 1 on page 4 sets out the maximum amounts to which survivors are entitled in 1987. These amounts are based on the maximum retirement pension to which the deceased contributor is entitled, which in 1987 is \$521.52 per month. It is assumed that survivors receive no other CPP benefit.

It should be noted that the flat rate portion of the benefit for survivors under age 65 is higher in the Quebec Pension Plan; as well, that plan gives special treatment to survivors between the ages of 55 and 64. As a result, in 1987 the maximum Quebec Pension Plan benefit for survivors between 55 and 64 is \$506.39 per month, and for those between 45 and 54 (or with dependent children, etc.), \$438.52 per month. The benefit for dependent children is, however, only \$29 per month for each child.

## THE CONSULTATION PAPER PROPOSALS

The Government grounds its proposals on three considerations. First, it points out that the differential treatment of survivors on the basis of age, or the presence of disability or dependent children may well violate the equality provisions of the Charter. In fact the Parliamentary Committee on Equality Rights recommended that survivor benefits be awarded without reference to any of these characteristics.

Second, it is argued that society is changing in ways which call into question several features of the survivor benefit. A continuing benefit may be unnecessary because the majority of female spouses are now in the labour force; thus survivor benefits may overcompensate those survivors, both women and men, who have the capacity to earn significant sums. The entry of women into the labour force is also a reason to question the existence of a survivor benefit which is not restricted to the years of the spousal relationship. In addition, given present patterns of divorce and remarriage, the dependent children of a contributor may not be the responsibility of the surviving spouse.

TABLE 1  
MAXIMUM SURVIVOR BENEFITS (PER MONTH) TOGETHER WITH OAS  
ENTITLEMENTS, 1987

Age of Survivor at Death of Contributor

65 or over	45-64 (or with dependent children or disabled)	35-44	under 35
60% spouse's pension: \$312.91(1)  OAS <u>\$308.19(2)</u>  <u>621.10</u>	37.5% spouse's pension: \$195.57(1)  flat rate portion: 94.79 <u>290.36</u>	\$290.36 reduced by 1/120 for each month under age 45; i.e. if age 40, survivor receives 1/2 of \$290 or <u>\$145.18(1)</u>	no benefit

Notes:

- (1) The spouse is assumed to receive no other CPP benefit.
- (2) OAS benefits are indexed quarterly to the CPI. This is the amount for October-December 1987. CPP amounts do not take indexation into account.



Third, while society may be changing, it is still in transition: there are many families which fall into the traditional mould and many widows who have spent a large portion of their working years outside the paid labour force who would benefit from the existing arrangements. As well, a number of Canadians have made arrangements on the basis of the existing system.

The following paragraphs set out the Government's proposals for changing the present system. Table 2 on page 7 compares maximum benefits under the present and proposed systems.

#### **A. For Survivors Aged over 35: A New Structure**

The Government proposes a new scheme of survivor benefits. To ensure a smooth transition from the present scheme, the new structure would apply only to those who are aged 35 or under and whose spouses die after the legislation is introduced. Under the new scheme, on the death of the contributor the survivor would receive a cash benefit significantly higher than the present retirement benefit (and thus a great deal higher than the present survivor benefit), but for only a short period of time. This is intended to enable survivors to adjust to their new circumstances, rather than to provide a continuing substitute for the contributor's income and would replace the existing continuing benefit for survivors under age 65. In addition, 60% of the CPP credits earned by the contributor during the period of the relationship would be transferred to the survivor. This would replace the existing benefit for those aged 65 and over.

The cash benefit would be equal to 40% of the average pensionable earnings of the contributor. (The CPP retirement benefit is 25% of average earnings over a working lifetime.) A full benefit would be paid out for three years, and the benefit would be phased out over an additional two years, so that some benefit would be paid for five years. Where there are dependent children, the full benefit would be paid until the youngest reached age 7, and would be phased out over the following two years.



The existing cap on the combined retirement and survivor benefits would be retained. Thus the transfer of credits would enhance the survivor's benefit at retirement, but the value of the transfer would decrease as the survivor's own earnings during the marriage approached the maximum. The transfer would of course create CPP credits if the survivor was not in the labour force during those years.

The Consultation Paper also points out that the transfer of credits could create eligibility for disability benefits, where the survivor otherwise did not have the required labour force participation. Moreover, the cap on combined retirement and disability benefits would be eliminated in this case, so that a disabled survivor would be able to receive a benefit greater than the maximum retirement benefit. It should be noted in this regard that the criteria for the determination of disability are extremely restrictive: the contributor must be certified as suffering from a disability which makes him or her incapable of regularly pursuing any occupation, and the disability must be prolonged.

#### **B. For Existing Survivors: A Transitional Benefit**

For those receiving survivor benefits at the time the legislation came into effect, the existing system would continue, but the flat rate portion of the benefit for survivors under age 65 would be doubled. In addition, all survivors under age 65 would be treated equally: thus there would be no reduction for survivors between ages 35 and 44, and those under age 35 whose spouses had died before the legislation was introduced would be eligible to receive a benefit.

#### **C. For Future Survivors in the Transitional Period: A Choice**

Spouses aged 35 or over when the legislation was introduced would be able to choose between the transitional arrangements or the new scheme. For survivors aged 60 and over the new structure is clearly preferable (because the payment period will carry them to age 65). For others, there may be a difficult choice between a relatively large benefit payable for a short period, and a lower but continuing benefit.



TABLE 2.

Maximum Monthly Survivor Benefits (and QAS)  
Under Existing and Proposed Schemes  
(1987 terms)

	Existing Structure (Continuing Payments)	Transitional Structure (Continuing Payments)	New Structure (Payments for 3 years, then phased-out)
Age of Survivor(1) at Death of Contributor(2)			
65 and over	\$621.10	\$621.10	(3)
45-64	290.36	385.15	834.43
35-44 (age 40)	290.36 is reduced (\$145.18)	385.15	834.43
under 35	no benefit	385.15	834.43

## Notes:

- (1) The survivor is assumed not to be entitled to another CPP benefit, except in the case of survivors aged 65 and over in the new structure.
- (2) The contributor is assumed to be earning at the maximum pensionable level.
- (3) The amount depends on the labour force attachment of the survivor and the length of the marriage. The survivor of a long marriage (e.g. 30 years) with no labour force attachment will receive roughly the same amount as under the existing structure; the shorter the marriage the smaller the benefit. A survivor of a long marriage with continuing labour force attachment, and earning on average about 40% of maximum pensionable earnings, will receive an amount equal to the maximum retirement benefit and OAS, i.e. \$829.71.

#### **D. For Dependent Children: An Increase in Benefits**

The flat rate benefit payable to children of survivors and disabled contributors would be increased to one half the maximum flat rate amount payable under the CPP. In 1987 terms this would amount to \$121.48 (from the existing \$94.79) per month.

#### **FINANCING**

Because the transitional provisions involve generous benefit increases, and because they affect the "baby boom" generation, they are expected to increase CPP expenditures significantly -- by \$378 million in 1990 and by \$2.101 billion in 2015. However, because the new structure involves the gradual elimination of a continuing benefit, the rate of increase is expected to fall after 2015, and it is projected that from 2030 onward expenditures will be lower than they would have been under the existing system.

Who will pay for the increase in transitional expenditures? The Consultation Paper states that changes to survivor benefits would require higher contribution rates at some point between now and 2026, and that the scheduling of the amount of the increase would be determined by federal-provincial consultation. It is considered only fair that the generation which stands to gain by a benefit increase should pay for that increase. In this regard, the Parliamentary Task Force on Pension Reform recommended that any benefit enrichment to the CPP be accompanied by an immediate increase in contribution rates, designed to incorporate the total cost of the increase into contribution rates over the 25-year schedule of rates now established in CPP legislation. The Consultation Paper does not address this recommendation or how it would affect current rates (now 1.9% of earnings up to the maximum for employees, and 1.9% of payroll for employers).



## ISSUES ARISING

Proposals for the new structure assume that there is no need for a continuing survivor benefit. Certainly, a woman with, say, two children, and a "good" job, who has adequate child care (after school, when the children are sick, when she works overtime), may well need only an adjustment benefit. However, while it is certainly true that women's labour force participation has increased significantly, one should not ignore that over one quarter of the women now in the labour force work part-time; that the great majority of women are working in low paying jobs with little chance of advancement; and that women as a group continue to earn considerably less than men. There is as yet no evidence that this disparity will disappear in the future. Moreover, as of 1985, 60.4% of female single-parent families were poor, the poverty rate for this group having risen steadily since 1981. To paraphrase the 1979 Report to the Government of Canada of the Task Force on Retirement Income Policy on an analogous issue, unless and until the rates of labour force participation and remuneration of married females are similar to those of married males, the elimination of a continuing benefit involves the risk that there will continue to be many poor female survivors.

An alternative which has been proposed by some groups participating in the process of pension reform, is to retain a continuing benefit, but to subject it to some sort of income test (as is done with the Guaranteed Income Supplement). The pension plans of France and the Federal Republic of Germany include income tests for survivor benefits. The Canadian Labour Congress has suggested a labour force attachment test: those who have contributed to the CPP above a certain level of earnings for a certain number of years before and including the year of the death of the contributor would not be eligible for a benefit.







